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FINLAYSON
ENTERPRISES LTD.

INTERIM REPORT
TO SHAREHOLDERS

FOR THE SIX MONTHS ENDED
JUNE 30, 1977

To the Shareholders of

FINLAYSON ENTERPRISES LTD.

The optimism expressed in the comments to the Shareholders in the 1976 Annual Report concerning 1977 prospects has been dampened considerably by the events which occurred in the second quarter.

The lack of consumer confidence which has affected demand for our products has resulted in a stagnant market for the last 15 months. Despite the introduction of new lines, total company sales in the six months increased only 6%, well under budget. Largely due to higher operating costs in our new premises and the matters discussed in the following paragraph, net profit after all charges declined from a record high of \$135,474 in the first half of 1976 to a loss of \$33,924 in the similar period of 1977.

Additional adverse factors should be noted. The infants' wear division was prevented by government order from selling a line of finished goods which was treated with a previously approved but now suspect chemical. It is hoped that we will get at least partial compensation for this. In addition, all divisions have suffered from an effective devaluation of the Canadian dollar of about 10% which raises costs of imports and in turn reduces profit margins.

Despite these trends we expect a seasonal increase in sales and a return to profitable operations in the last half of the year.

R. W. FINLAYSON,
President

August 17, 1977

FINLAYSON ENTERPRISES LTD. *Toronto*

Consolidated Statement of Profit and Loss (Unaudited)

	Six Months Ended	
	June 30, 1977	June 30, 1976
Sales	\$3,680,773 <i>x</i>	\$3,478,876 <i>*</i>
Profit (Loss) on Operations	(\$ 57,147)	\$ 169,225
Provision for Income Taxes (refundable)	(23,223)	77,728
Profit (Loss) on Operations before Extraordinary Item	(\$ 33,924) <i>*</i>	\$ 91,497 <i>*</i>
Extraordinary Item—recovery of income tax through carry-forward of loss of prior year	—	43,977 <i>o</i>
Net Profit (Loss)	(\$ 33,924) <i>*</i>	\$ 135,474 <i>*</i>
Earnings (Deficiency) per Common Share after providing for dividends on Preferred Shares:		
Before Extraordinary Item	(\$0.676)	\$0.906
After Extraordinary Item	(\$0.676)	\$1.471

Consolidated Statement of Changes in Financial Position (Unaudited)

	Six Months Ended	
	June 30, 1977	June 30, 1976
Source of Funds		
Consolidated Net Profit (Loss)	(\$ 33,924)	\$ 135,474
Add: Depreciation, a non-cash outlay	36,879	23,135
Deferred Income Tax	—	23,995
Funds provided from operations	\$ 2,955	\$ 182,604
Application of Funds		
Net Acquisition of Fixed Assets	\$ 181,053	\$ 29,862
Dividends: Preferred Shares	18,676	21,011
Redemption of Preferred Shares	—	77,817
Increase in Cash Value of Life Insurance Policies	1,873	1,454
Total Funds Applied	\$ 201,602	\$ 130,144
Increase (Decrease) in Consolidated Working Capital	(\$ 198,647)	\$ 52,460
Consolidated Working Capital at Beginning of Period	1,525,445	1,456,112
Consolidated Working Capital at End of Period	\$1,326,798	\$1,508,572



Finlayson Enterprises Ltd.



THE HOME OF FINLAYSON ENTERPRISES LTD.
833 OXFORD STREET
TORONTO, ONTARIO

Your Company is composed of three major operating divisions, two of which are resident in the 833 Oxford Street facility: Beauty Creations and Griffiths-Kerr Sales. The third division, Beauty Industries has manufacturing and management functions located in Hamilton, Ontario and its sales office at the Oxford Street location.

BEAUTY CREATIONS DIVISION

This division imports and distributes nationally such fine French fragrances as: Parfums Pierre Cardin; Parfums Rochas, and Parfums Carven. Cezanne Cosmetics is owned by your Company—this product line is manufactured and distributed by this division.

GRIFFITHS-KERR SALES DIVISION

Since 1961 this division has imported fine linen, bedding and related products primarily from the United States. These products are distributed to department and specialty stores across Canada. This division's major supplier is Springs Mills Inc. of the United States.

BEAUTY INDUSTRIES DIVISION

This division manufactures and distributes its own line of infants wear under the trade name "By Beauty". Under an agreement with the William Carter Company of the United States, this division manufactures and distributes the "Carter's" line of infants wear in Canada.



Finlayson Enterprises Ltd.

DIRECTORS

G. A. BODDY—Fergus, Ontario
F. B. BROOKS-HILL—Oakville, Ontario
I. E. FINLAYSON—Toronto, Ontario
R. W. FINLAYSON—Toronto, Ontario
R. H. HOPPE—Montreal, Quebec
D. A. McINTOSH, Q.C.—Toronto, Ontario
R. G. WILSON—Burlington, Ontario

OFFICERS

R. W. FINLAYSON, *President*
I. E. FINLAYSON, *Executive Vice-President*
R. G. WILSON, *Vice-President*
H. SUTHERLAND, Q.C., *Secretary*
J. C. LONGWORTH, *Treasurer*

HEAD OFFICE

833 Oxford Street, Toronto, Ontario, Canada M8Z 5X4

REGISTRAR AND TRANSFER AGENT

CANADA PERMANENT TRUST COMPANY
Toronto, Ontario
Winnipeg, Manitoba

BANKERS

THE BANK OF NOVA SCOTIA
Toronto, Ontario



Finlayson Enterprises Ltd.

To the Shareholders of
FINLAYSON ENTERPRISES LTD.

Sales increased 13% in the year 1977 as compared to 1976. However, dollar sales were below budget and unit sales showed only a modest increase over last year. All three operating units participated in the upturn with the Beauty Creations' fragrance division showing the best gain.

As a result of the sales improvement in the last half of the year 1977, net profit after all charges totalled \$86,120 for the full year after absorbing the first half year's loss. A far more satisfactory result would have been achieved had we not been forced to write off goods frozen by government order. 1977 was a year of transition with the move to new premises and necessary expenditures were made in fixed assets and leasehold improvements. Initial excessive operating costs are now under control. All these charges had an adverse effect on our operating results and on the bank loan.

The outlook for 1978 is uncertain. There is still no noticeable confidence developing in domestic demand. Costs of materials and finished products, which we purchase in the main from the United States and France, are rising steadily as a result of inflationary trends and the depreciation of the Canadian dollar. Profit margins are under constant pressure and justifiable price increases are difficult to attain in the unsettled market. While we have written off the inventory problems and are budgeting for a return to a more normal profit level, we expect that 1978 will be another challenging year.

R. W. FINLAYSON
President

March 21, 1978



Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

ASSETS

	1977	1976
CURRENT		
Cash	\$ 606	\$ 30,344
Accounts receivable	2,021,639	1,672,828
Merchandise inventories, at lower of cost and net realizable value. . .	1,831,403	1,671,332
Income taxes refundable	24,592	—
Prepaid expenses	155,416	152,861
TOTAL CURRENT ASSETS	<u>4,033,656</u>	<u>3,527,365</u>
FIXED		
Equipment, automotive equipment and leasehold improvements, at cost	884,611	696,633
Less accumulated depreciation	507,007	457,594
TOTAL FIXED ASSETS	<u>377,604</u>	<u>239,039</u>
OTHER		
Cash value of life insurance policies	<u>63,327</u>	<u>61,099</u>
Approved on behalf of the Board:		
R. W. FINLAYSON, <i>Director</i>		
F. B. BROOKS-HILL, <i>Director</i>		
	<u>\$4,474,587</u>	<u>\$3,827,503</u>

AUDITORS' REPORT

To the Shareholders

FINLAYSON ENTERPRISES LTD.

We have examined the consolidated balance sheet of Finlayson Enterprises Ltd. and subsidiary companies as at 31 December 1977 and the consolidated statements of retained earnings, income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Companies as at 31 December 1977 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TORONTO, ONTARIO, 17 March 1978

DUNWOODY & COMPANY
Chartered Accountants

s at 31 December 1977

LIABILITIES

	1977	1976
CURRENT		
Bank indebtedness	\$1,509,837	\$ 683,748
Note payable, note 2	85,000	115,000
Accounts payable and accrued charges	966,251	1,097,615
Income and withholding taxes	46,930	105,557
TOTAL CURRENT LIABILITIES	2,608,018	2,001,920
DEFERRED INCOME TAXES	24,612	24,612
	<u>2,632,630</u>	<u>2,026,532</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized

2,150,941 6% cumulative preferred shares of par value
\$1 each, redeemable at the amount paid up thereon

116,133 Common shares of no par value

Issued

622,536 Preferred shares 622,536 622,536
77,817 Common shares 281,671 281,671

RETAINED EARNINGS	904,207	904,207
	937,750	896,764
TOTAL SHAREHOLDERS' EQUITY	<u>1,841,957</u>	<u>1,800,971</u>
	<u>\$4,474,587</u>	<u>\$3,827,503</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended 31 December 1977

	1977	1976
BALANCE, BEGINNING OF YEAR	\$896,764	\$ 716,012
Net income for year	86,120	228,221
	<u>982,884</u>	<u>944,233</u>
Cash dividends paid during the year		
Preferred shares	37,352	39,687
Common shares	7,782	7,782
	<u>45,134</u>	<u>47,469</u>
BALANCE, END OF YEAR	<u>\$ 937,750</u>	<u>\$ 896,764</u>



Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended 31 December 1977

	1977	1976
SALES (net), note 3.	\$8,554,623	\$7,565,722
Income from operations for the year, before accounting for the undernoted items	\$ 188,715	\$ 383,454
Less: Interest on indebtedness not initially maturing within one year . . .	—	2,543
Provision for depreciation and amortization of fixed assets	80,059	54,239
	80,059	56,782
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	108,656	326,672
Income taxes—current.	26,269	118,378
—deferred.	—	24,612
	26,269	142,990
INCOME BEFORE EXTRAORDINARY ITEM.	82,387	183,682
Extraordinary item		
Income taxes recovered on loss carry forward.	3,733	44,539
NET INCOME FOR YEAR, note 5	\$ 86,120	\$ 228,221

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended 31 December 1977

SOURCE OF FUNDS

	1977	1976
Operations		
Net income for year	\$ 86,120	\$ 228,221
Items not requiring an expenditure of funds		
Depreciation and amortization	80,059	54,239
Deferred income taxes	—	24,612
FUNDS OBTAINED FROM OPERATIONS	166,179	307,072
Proceeds on disposal of fixed assets	16,975	8,484
TOTAL FUNDS OBTAINED	183,154	315,556

APPLICATION OF FUNDS

Acquisition of fixed assets	235,599	118,037
Increase in cash value of life insurance policies.	2,228	2,900
Redemption of preferred shares.	—	77,817
Dividends paid during the year		
Preferred shares.	37,352	39,687
Common shares.	7,782	7,782
TOTAL FUNDS APPLIED.	282,961	246,223
INCREASE (DECREASE) IN CONSOLIDATED WORKING CAPITAL . . .	(99,807)	69,333
Consolidated working capital, beginning of year.	1,525,445	1,456,112
CONSOLIDATED WORKING CAPITAL, END OF YEAR.	\$1,425,638	\$1,525,445

CONSOLIDATED WORKING CAPITAL

Current assets	\$4,033,656	\$3,527,365
Current liabilities	2,608,018	2,001,920
	\$1,425,638	\$1,525,445



Finlayson Enterprises Ltd.

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 1977

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.

(b) Inventories

Finished goods have been valued at the lower of cost and net realizable value. Other inventories have been valued at the lower of cost and replacement cost. Cost is generally determined on a first-in first-out basis.

(c) Foreign Exchange

Liabilities in foreign currencies are converted at the rates of exchange in effect as at 31 December 1977.

2. NOTE PAYABLE

	1977	1976
On demand, 8.25%, payable to a Director of the Company	<u>\$85,000</u>	<u>\$115,000</u>

3. CLASSES OF BUSINESS

As required by the Canada Corporations Act the Directors are of the opinion that the proportion of sales from the different classes of business is as follows:

	1977	1976
Textiles	\$6,391,026	\$5,763,918
Cosmetics and toiletries	<u>2,163,597</u>	<u>1,801,804</u>
	<u>\$8,554,623</u>	<u>\$7,565,722</u>

4. REMUNERATION OF DIRECTORS AND OFFICERS

As defined in the Canada Corporations Act the aggregate remuneration of the seven Directors of the Company as Directors amounted to \$5,000 (1976—\$4,000) and the aggregate remuneration of the five Officers of the Company as Officers amounted to \$113,417 (1976—six—\$115,031). Three of the Officers of the Company are also Directors.

As defined in The Securities Act (Manitoba) the aggregate direct remuneration paid or payable to Directors and Senior Officers amounted to \$244,218 (1976—\$241,414).

5. EARNINGS PER COMMON SHARE

	1977	1976
Income before extraordinary item	\$0.58	\$1.86
Extraordinary item	<u>0.05</u>	<u>0.57</u>
Net income for year	<u>\$0.63</u>	<u>\$2.43</u>

6. CONTINGENT LIABILITY

Certain of the group companies are appealing from a decision of the Tax Review Board upholding income tax re-assessments totalling approximately \$210,000 including interest for the years 1966 to 1968. No provision has been made in the accounts for these re-assessments as it is the opinion of counsel that the Company should probably be successful in having the re-assessments set aside.

7. ANTI-INFLATION LEGISLATION

The Company is subject to dividend restrictions under the Anti-Inflation Act. For the period 1 January 1978 to 13 October 1978, dividends at the regular rate can be paid on the preferred shares and a maximum of \$0.24 per share can be paid on the common shares.

8. COMMITMENT

The Company has leased premises to 30 November 1986 at an annual net rental of \$80,367 plus taxes and other occupancy costs.

